

June 30, 2011



Dear Citizens of Sandy:

Transmitted herewith is the approved budget for FY 2011-12. As with the three fiscal years prior to this one, the effects of the deep national recession have again played a major role in shaping this year's budget. We currently project that the City's largest revenue source, sales tax, will decline for the third year in a row. The FY 2011-12 sales tax projection of \$15,280,840 is nearly 23% lower than the FY 2007-08 receipts of \$19,746,003. Despite declining revenue, we submit a budget that effectively addresses the shortfall and needs of our community.

The effects of the economy were exacerbated by the census numbers released earlier in March. Population data is a prominent factor in the formulas used to distribute both sales tax and gasoline tax. Since the 2000 census, the state has estimated that Sandy's population has increased from 88,418 to 97,188. They based this projection on the increase in households due to new construction. However, the 2010 census revealed that the household size has continued to decline as Sandy's population has aged. Rather than an increase in population, the census showed a decrease to 87,461. With Sandy's population decreasing while the rest of the state has increased, sales tax revenue is estimated to decrease by \$683,000. Correspondingly, state road fund revenue that comes from the tax on gasoline is estimated to decrease by an additional \$204,000. In order to present a balanced budget, adjustments were made to both revenue and expenditures.

WORKFORCE REDUCED TO ADDRESS SHORTFALL

Our first recommendation to address the shortfall is to reduce the size of the City's workforce by eliminating 8.37 full-time equivalent positions for a savings of \$518,000. We will attempt to make this reduction by eliminating vacant positions and avoiding a layoff. Over the past four years, a total of 23.33 full and part-time positions have been eliminated. That number is 5% of the City's non-seasonal workforce. This reduction in the size of the City's workforce is partially justified by the decreased workload caused by the economic downturn. For example, development has slowed with the economy which in turn has reduced the workload of planners, and inspectors. However, the workload for other City services has not gone down. In many cases, employees are agreeing to do more with less allowing the City to reduce the overall cost of pay.

REVENUE SOLUTIONS TO SHORTFALL

In addition to cost reductions, we are recommending some revenue adjustments as solutions to the shortfall. This budget shifts \$1.2 million from the water fund to

the general fund. Revenue in the water fund has been healthy and has funded much of the capital master plan adopted in 2000. State law allows a city to charge a franchise fee of up to 6% to the utilities that operate within its jurisdiction including a utility owned and operated by the city. By charging a 6% franchise fee, water revenue will pass from the water fund to the general fund. This would delay by a few years completion of some of the projects in the master plan adopted last year but the projects would ultimately be completed and water rates would not need to increase as a result of this shift.

We also anticipate additional revenue from four other sources. The City will soon be able to process passport applications through the recorder's office. This will be a convenient alternative for those who would like to apply for a passport at City Hall. No additional personnel will be needed to offer this service but we expect to collect \$40,000 of additional revenue through the application fees. Another revenue source was made available during the past legislative session. The Unified Fire Authority agreed to make a \$60,000 annual payment to Sandy to fund the hazmat services that Sandy provides through the Metro Fire Authority. Third, business license fees were reevaluated and adjusted which produce an additional \$45,000 in revenue. Finally, we recommend that the storm water fee increase from \$5.35 to \$5.70. The additional revenue will be used for projects that will decrease the risk of flooding.

MEETING CURRENT AND FUTURE NEEDS

The additional revenue sources combined with savings from reducing the workforce is sufficient to cover the projected shortfall and leaves \$833,000 to address other issues. We recommend that approximately \$40,000 be used to address department request such as supplies for the NOVA program in the police department, increased power costs in street lighting, and increased credit card fees in the Justice Court. Next, we are recommending an employee compensation plan that will cost the general fund about \$114,000. Finally we recommend about \$723,000 funding for capital and equipment. This funding will be used for a new bucket truck for street light maintenance, medical equipment in the fire department, hazardous sidewalk repair, and street reconstruction. Other capital projects will be funded through funding sources such as water and storm water fees, state road funds and park impact fees. The economic slump has depleted some of these traditional funding sources for one-time projects. By using ongoing cost savings and revenue to meet some of these one-time needs, we will preserve an ongoing revenue stream that we think will be necessary to pay for increasing retirement costs over the next three years. This will be explained later in more detail.

EMPLOYEE COMPENSATION PLAN

A significant part of any City budget is always employee compensation. Just over 42% of the budget is spent on pay and benefits for employees. The City's purpose is to provide services to its residents. Those services are only as good as the City's workforce. The citizen survey conducted in December shows that City residents continue to rate high the performance of City employees. This budget proposes funding an increase in the employee health benefit, state-mandated adjustments to the retirement benefit, and a 1% pay increase based on performance.

The cost of health insurance is increasing by 21.7%. While the magnitude of this increase gives cause for concern, it is actually justifiable. The City has been underpaying for insurance over the past several years. Only once in the past seven years has the City paid enough in medical premiums to cover the cost of claims. Fifty-four individuals had claims that exceeded \$10,000. This group is only 3.8% of the employees covered but accounts for 54.8% of the total claims. Further evidence is that the City's annual premium for a family has been \$7,580 while a survey of seven other state and local entities revealed an average premium of \$11,755. The FY 2011-12 budget includes funding to increase the allowance for the employee health benefit by 14%. The annual allowance for a single employee would increase from \$5,000 to \$5,700, two-party coverage would increase from \$8,000 to \$9,120, and family coverage from \$11,000 to \$12,540.

Retirement costs will be steady in the coming year but we are anticipating potentially large increases in the subsequent three years. According to the Utah Retirement System (URS), investment losses in the fourth quarter of 2008 and the first quarter of 2009 have left the system seriously underfunded. The response to this funding crisis has been twofold. First, contribution rates are projected to increase significantly. Second, The Utah Legislature reformed the retirement system in their 2010 session.

Although the rate increases for FY 2011-12 are modest, The URS has warned that the increases will accelerate in FY 2012-13 through FY 2014-15. The impact will initially be the greatest in the public safety system where the contribution rate is already above the City's retirement benefit rate of 17.95%. The impact in the public employee and firefighters systems will be initially felt by the employees as they see the City contribution to their 401(k) accounts dwindle. Once the URS contribution rates for public employees and firefighters surpass the City's benefit rate of 17.95%, the impact shifts from the employees to the City. By FY 2014-15, the retirement benefit could cost the City \$768,000 more than it has in FY 2010-11.

The 2010 legislative reform established a two-tier retirement system. Employees hired after July 1, 2011 will belong to the tier II system. This system provides lower benefits but at a lower cost. Further, the risks of a shifting economy are transferred from the employer to the employee. Sandy City has opted out of the Social Security System. An important policy question facing the City is whether to provide a social security replacement program as part of the tier II system. This budget recommends the establishment of a program that matches employee contributions to a 401(k) up to 2%. We feel this program is modest yet keeps the City competitive, better prepares tier II employees for retirement and is fair. Although the fiscal impact of the increasing retirement rates will not be felt this coming fiscal year, this budget will set aside an ongoing revenue stream of \$729,000 that will be used to fund these costs when they become reality.

We recommend a 1% pay increase based on performance. We can implement this recommendation and still decrease the overall cost of employee pay and benefits. Two things make that possible. First, the City realized \$640,581 savings this past year from employee turnover. All positions within the City have a pay range. New employees

generally start at the bottom of the range and receive a “merit” increase as they learn and grow. If they perform well, they eventually reach the top of their pay range. As employees retire or otherwise leave City employ, we replace a higher paid employee with a lower paid employee. The result is turnover savings. The pay ranges will not increase in the coming year but we propose that employees be given the opportunity to earn a 1% merit increase to move within their pay range. Prior to the economic downturn, employees were eligible for merit pay increases up to 5%. The cost of the 1% merit increase is \$250,000 which is less than half the turnover savings from last year. As a result, the overall cost of the City’s workforce will decrease by \$289,000 despite the 1% merit increase.

HOPE FOR THE FUTURE

The economic future of the City depends on our ability to encourage and manage the right development. Concerted effort will be made to get the most out of our central business district in the area between 90th South and 114th South, and between the TRAX line and the Freeway. At the south end of that area, Scheels recently broke ground for a 220,000 square foot sporting goods store that will open in October 2012. Not only will it generate new commerce on its own, it will attract other new development in that area. Further north, we will continue work on a master plan of the civic center area between the South Towne Mall and City Hall. Some implementation should begin in the next fiscal year. To the east, UTA recently selected Hamilton Partners as the developer for the transit oriented development (TOD) that will take place in that area. Further north, we will continue with the master plan for the super block around Rio Tinto Stadium. If planned properly, we feel that these four areas of emphasis will fuel the City’s economic engine for the next 50 years.

The actions taken in this year’s budget not only balance our expenditures with the new revenue reality but also anticipate future demands and identify a revenue stream that will keep future budgets in balance.

Respectfully,



Thomas M. Dolan
Mayor



Linda Martinez-Saville
City Council Chair



Byron D. Jorgenson
Chief Administrative Officer